

REPORT FOLLOW-UP

AGENCY: IDAHO STATE LIQUOR DISPENSARY

On February 25, 2005, the Legislative Services Office released a Management Report on Financial Procedures for the Idaho State Liquor Dispensary for fiscal years 2002, 2003, and 2004. The Dispensary was contacted on May 13, 2005, and this follow-up report addresses how the Dispensary has responded to the four findings and recommendations contained in that report.

STATUS OF RECOMMENDATIONS:

Finding #1 – The Dispensary sells some products that it may not have legislative authority to sell. Idaho Code, Section 23-203 authorizes the State Liquor Dispensary to regulate and sell alcoholic liquor. During fiscal year 2004, the Dispensary sold non-alcoholic items such as non-alcoholic mixers, cocktail recipe books, bar tools, ice, and cocktail garnishes. Although the revenue from the sale of those items was small when compared with total sales, the availability and sale of those products may have been in violation of the Dispensary's authority.

We recommended that the Dispensary request an opinion from the Idaho Attorney General's Office to determine whether it had the authority to sell non-alcoholic items in the State-run stores.

Audit Follow-up – The Dispensary did not obtain an Attorney General's Office opinion, but plans to introduce legislation in the upcoming session to clarify the language in Idaho Code, Section 23-203 to specifically allow it to sell the types of non-liquor items that it currently sells. While the Dispensary believes it already has the authority to sell those liquor related items, it agrees the Idaho Code could be more clear.

Status – IN PROCESS

Finding #2 – The 2% surcharge required by Idaho Code was not assessed on some items, resulting in the Dispensary not collecting \$11,300. Idaho Code, Section 23-217 directs the Dispensary to include a 2% surcharge on the price of goods sold through its retail outlets. The surcharge is collected by the Dispensary and then remitted to the Drug and Family Court Services Fund. The pricing model used in formulating the retail price of goods sold, exempts all non-alcoholic items from the surcharge.

We recommended that the Dispensary apply the surcharge to all appropriate items sold, as directed by Idaho Code.

Audit Follow-up – The Dispensary has applied the 2% surcharge to all items, including non-liquor items, effective February 1, 2005. In addition, the Dispensary's fiscal year 2006 appropriation requires that it transfer the \$11,300 uncollected surcharge to the Drug Court and Family Court Services Fund on July 1, 2005.

Status – CLOSED

Finding #3 – The Dispensary did not have a procedure to determine changes in local option sales tax rates, resulting in \$25,000 not being collected. Idaho Code, Section 63-2602 allows counties to elect to collect a local option tax. The tax was to be applied to all taxable sales under the State's sales tax regulations. Kootenai County held a special election and approved a 0.5% local option tax that went uncollected by the Dispensary during the first five months it was in effect. Based on county sales information, we estimated that the delay resulted in the loss of approximately \$25,000 in local option tax revenue for Kootenai County.

We recommended that the Dispensary implement procedures to ensure changes in the tax assessments would be completed on the appropriate effective date.

Audit Follow-up – The Dispensary's point of sale (POS) cash register system was not programmed or capable of charging any form of sales tax. The POS system has been reprogrammed to allow for sales tax collections, as well as to make changes to the tax rates at the beginning of any month. In addition, the Dispensary will request that the State Tax Commission notify the Dispensary whenever there is a change in any local county option sales tax.

Status - CLOSED

Finding #4 – Sales tax is collected from the sale of non-liquor items, but not deposited in the Sales Tax Account. Idaho Code, Section 63-3638A states that sales tax collected on the sale of liquor is to be credited to the Liquor Fund rather than the Sales Tax Account. The Dispensary sells products that do not meet the definition of liquor. The Dispensary's pricing formula includes sales tax in the price applied to liquor and non-liquor products alike. During fiscal year 2004, the sale of non-liquor products generated approximately \$34,000 in sales tax revenue.

We recommended that the sales tax collected on the sale of non-liquor items be remitted to the appropriate account, as required by Idaho Code.

The Dispensary plans to introduce legislation in the upcoming legislative session to clarify the language in Idaho Code, Section 23-401 to specifically require that all State sales tax collected, including the tax on non-liquor items, be deposited into the Liquor Account. The Dispensary believes that was the original intent of the existing legislation.

Status – IN PROCESS